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THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D. C. 20201

MAR 15 1977

Honorable Daniel J. Flood
Chairman
Subcommittee on Labor, and Health,
Education, and Welfare, and
Related Agencies
Committee on Appropriations
House of Representatives
Washington, D. C. 20515

Dear Mr. Flood:

This letter is to inform you of a change in our plans for obligating funds appropriated to the National Center for Health Services Research and Development. We are planning to reprogram \$2.2 million from "grants and contracts" to "direct operations"—and to use these funds in tandem with the Regional Medical Program.

As you know, the 1972 Labor-HEW Appropriations Act included significant increases over the amounts requested in the President's budget. We have already announced our intention of obligating the full amount appropriated, but the extra funds require us to make some adjustments in funds budgeted for program management.

More specifically, the 1972 Appropriation Act included \$102,771,000 for RMP, an increase of \$50,000,000 over the budget request. As suggested in the Senate report, we are utilizing a portion of this increase to extend support to developing Health Maintenance Organizations. Approximately \$16 million is being devoted to this purpose in 1972.

In carrying out this revised plan, we have encountered an unanticipated demand for Federal "technical assistance" from consumer groups, physicians' groups, State and local health departments, medical schools, hospitals, medical care foundations, and others who are interested in establishing HMO's with or without Federal funding. Primarily in order to meet this demand, but also to provide program direction for the HMO effort and to design and implement a nation-wide system to assess the quality and cost of medical care provided by HMO's in comparison with fee-for-service care, it is necessary that a staff of 116 be established. About 50 of the positions would be assigned to the field and operate out of the ten HEW Regional Offices. Although this staff fits within the overall employment limitations under which HEW is operating in 1972, authorization to establish these positions has not been previously presented to your committee.

In order to fund these positions, we are proposing to reprogram \$2.2 million appropriated under Health Services Research and Development from "grants and contracts" to "direct operations." We had earlier justified funds in the HSR&D appropriation for 24 IMO projects throughout the country. The management of these projects involves technical assistance, monitoring and follow-up evaluation. The extra RMP funds available for IMO development however, will enable us to assist approximately 100 additional IMO's in FY 1972. The reprogramming will permit us to strengthen the core IMO management staff at the National Center so that we can pursue a coordinated IMO development effort.

In summary, we are carrying out the Congressional intent that a portion of the RMP increase be used to expand support to developing Health Maintenance Organizations. Our reprogramming plan merely provides the necessary staff to manage the program in a coordinated fashion. We will continue to proceed with our reprogramming plan unless your committee finds it unsatisfactory.

With best regards,

Sincerely,

Edward R. Richardson

Secretary